

Mobilizing More Money for Small Businesses in Rwanda through Innovative Blended Finance

The World Bank Treasury structured a USD eq. 257.5 million blended finance package to maximize development financing for micro-, small- and medium-sized enterprises (MSMEs) in Rwanda.

The unique solution brought together five different sources of financing (credits, grants, concessional loans from IDA, Global Facility for Disaster Reduction and Recovery, and Asian Infrastructure Investment Bank) to crowd in the maximum available concessional financing for MSMEs.

The structuring contributes to lengthening the maturity of Rwanda's external public debt, and managing currency and interest rate risks, in line with the country's debt management strategy.

Background

Rwanda posted over seven percent GDP growth in the decade to 2020, but when the COVID-19 pandemic spread, it put the country into a deep recession.

One of the hardest-hit sectors in the country was MSMEs. This sector is the backbone of the economy, making up 55 percent of GDP and 70 percent of total employment. MSMEs saw a 30 percent decline in activity, and most were struggling to find financing.

To respond to the challenges facing Rwanda's private sector due to the pandemic, the Government designed and executed an Economic Recovery Plan (ERP) which strengthened social protection, assisted firms affected by the pandemic, and adopted fiscal policies to support growth. The ERP was supported by the Access to Finance for Resilience and Recovery Project (P175273).

The project aims to provide financial relief to businesses affected by the pandemic and to support the resilience of businesses and recovery of overall economic activity in affected sectors. The project provides credit lines to (a) facilitate refinancing of



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existing debt obligations, (b) provide working capital, and (c) support investments for business adaptation and growth through the provision of long-term sources of finance.

This is complemented by risk sharing instruments including a partial credit guarantee scheme, bridge lending, and an insurance facility, and targeted technical assistance to firms and participating financial institutions to increase access to finance to underserved segments.

Financial Objectives

- Crowd in the maximum available concessional financing to strengthen MSMEs recovery from the pandemic in Rwanda.
- Build a platform for other development partners to provide additional future support to MSMEs through the project's blended structure.
- Meet Rwanda's debt management strategy requirements¹ by: (i) lengthening the tenor of debt, (ii) diversifying the currency risks of external debt away from US Dollars, (iii) managing interest rate risk by obtaining fixed rate financing.

¹ Rwanda's latest <u>Medium Term Debt Strategy</u> focuses on maximizing concessional external debt and developing the domestic markets, extending average maturities, and increasing fixed rate debt.



Financial Solution and Outcomes

Rwanda obtained a financial package of USD equivalent (eq.) 257.5 million comprised of five different sources of financing. This is a significant amount of funding to capitalize the ERP.

The innovative package blends (i) USD eq. 100 million in market-based IDA Scale-Up Window (SUW) financing (which is provided at IBRD terms), (ii) an IDA credit of USD eq 25 million, (iii) an IDA grant of USD eq. 25 million, (iv) a grant from the Global Facility for Disaster Reduction and Recovery for USD eq. 7.5 million, and (v) a \$100 million loan from the Asian Infrastructure Investment Bank (AIIB).

The solution crowded in the maximum available concessional financing by raising funds from a new multilateral development bank that is expanding to Africa. The \$100 million co-financing by the AIIB is the AllB's first operation in Sub-Saharan Africa. This blended financing structure will also enable other development partners to provide additional future and downstream implementation support arrangements with financial intermediaries in Rwanda. It also increased the concessionality of the overall financing. The whole package is considered concessional and thus ensured that other sources of development financing, such as from International Monetary Fund, would continue to be accessible².

The blended solution for this project met Rwanda's debt management strategy requirements in the following ways:

- It maximized available maturities with the IDA SUW and AIIB financing, structured for 34 years final maturity with a 5.5 year grace period, to push out the tenor of its public external debt.
- It diversified the currency risks of external debt away from US Dollars through designing a package that included 48.5 percent equivalent structured in Japanese Yen, 10 percent in SDRs, and the remainder in US Dollars.

 And 22.3 percent of the total blended finance package was through IDA credit and grants, which are fixed-rate. The Government plans to fix the reference rate of the USD eq. 100 million IDA SUW loan as soon as it is disbursed to manage the interest rate risks further.

World Bank Treasury's Role

- The World Bank Treasury's work involved structuring the USD eq. 257.5 million blended financing package from five different funding sources, optimizing currency composition, and minimizing the all-in costs of financing.
- The Treasury coordinated and worked closely with the Asian Infrastructure Investment Bank and Rwanda's government conducting financial modeling and alignment of the financial terms of all components of the blended finance package.
- Treasury also engaged extensively with the debt management office in Rwanda to ensure the blended financing package met all of the government's strategic debt management needs.
- Working closely with the task team through a series of virtual missions and engagements, Treasury financial engineering enabled the successful delivery of this critical funding to MSMEs in Rwanda.

	IDA Scale- Up Window	AIIB	IDA credit	IDA Grant	GRiF
Amount	JPY 10,9Bn	EUR 83.3M	JPY 2,7Bn	SDR 17.5M	US\$ 7.5M
Amount in millions of USD eq.	100	100	25	25	7.5
Final Maturity	34Y	34.5Y	38Y	N/A	N/A
Grace Period	5.5Y	5.5Y	6Y	N/A	N/A
ARM	19.9Y	19.9Y	21.9Y	N/A	N/A
Rate	JPY TONA + Variable spread in JPY	EURIBOR + Variable spread in EUR	0.75%	N/A	N/A

² Grant element is defined as the difference between the loan's nominal value (face value) and the sum of the discounted future debt-service payments to be made by the borrower (present value). International Development Association, Grant Element Calculations Typically, a loan is considered to be concessional if its grant element is at least equal to 35 percent, which fits within the IMF's